

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
(Greenbelt Division)**

In re: CREATIVE HAIRDRESSERS, INC., et al.¹, Debtors	Case No. 20-14583, 20-14584 TJC (Jointly Administered) Chapter 11
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CONSENT MOTION TO CONVERT CASES TO CHAPTER 7

John P. Fitzgerald, III, the Acting United States Trustee for Region 4 (“United States Trustee”), by counsel, hereby moves with the consent of the Debtors, Creative Hairdressers, Inc. and Ratner Companies, L.C. to convert these cases to a liquidation under Chapter 7 of the United States Bankruptcy Code. As shown in more detail below, the cases should be converted because the Debtors have advised the Trustee that they do not believe that they can confirm Chapter 11 plans and there are available assets to distribute to creditors. In further support of this Motion, the United States Trustee states as follows:

1. The Debtors filed a voluntary petition for relief under Chapter 11 of the United States Code on April 23, 2020 (“Petition Date”). The Debtors have remained in possession of the estates' assets and continue to manage their financial affairs. 11 U.S.C. §§ 1107, 1108.
2. This Motion is filed pursuant to 28 U.S.C. §§ 157, 586, and 1334; and 11 U.S.C. § 307. The applicable statutes and rules supporting this Motion are 11 U.S.C. 1112(b) and Fed. R. Bankr. P. 2015.
3. Section 1112 of the Bankruptcy Code governs conversion or dismissal of Chapter

¹ The Debtors in these chapter 11 cases are: (i) Creative Hairdressers, Inc. and (ii) Ratner Companies, L.C.

11 cases. Section 1112(b)(1) provides in relevant part:

on request of a party in interest, and after notice and a hearing, . . .
the court shall convert a case under this chapter to a case under
chapter 7 or dismiss a case under this chapter, whichever is in the
best interests of creditors and the estate, if the movant establishes
cause.

11 U.S.C. § 1112(b)(1). Once a movant has established cause, the Court must exercise its discretion to determine which action – conversion or dismissal – best suits the circumstances of the case. *Rollex Corp. v. Associated Materials, Inc. (In re Superior Siding & Window, Inc.)*, 14 F.3d 240, 242 (4th Cir. 1994); see also *In re Sydnor*, 431 B.R. 584, 590 (Bankr. D. Md. 2010) (After cause is established, the “court must dismiss the case or convert the case . . . or appoint a Chapter 11 Trustee,” whichever course of action is in the best interest of creditors and the estate). *Accord In re Landmark Atl. Hess Farm, LLC*, 448 B.R. 707, 711 (Bankr. D. Md. 2011).

5. In determining which remedy, conversion or dismissal, is in the best interests of creditors and the Bankruptcy Estate, the Court should consider the following factors:

(1) whether some creditors received preferential payments, and whether equality of distribution would be better served by conversion than dismissal; (2) whether there would be a loss of rights granted in the case if it were dismissed rather than converted; (3) whether the debtor would simply file a further case upon dismissal; (4) the ability of the trustee in a chapter 7 case to reach assets for the benefit of creditors; (5) in assessing the interests of the estate, whether conversion or dismissal would maximize the estate’s value as an economic enterprise; (6) whether any remaining issues would be better resolved outside the bankruptcy forum; (7) whether the estate consists of a ‘single asset’; (8) whether the debtor had engaged in misconduct and whether creditors are in need of a chapter 7 case to protect their interests; (9) whether a plan had been confirmed and whether any property remains in the estate to be administered; and (10) whether the appointment of a trustee is desirable to supervise the estate and address possible environmental and safety concerns.

Lakefront Investors, LLC v. Clarkson, 484 B.R. 72, 83 (D. Md. 2012) (quoting 7 COLLIER ON

BANKRUPTCY [SECTION] 1112.04[7]).

6. Section 1112(b)(4) contains an illustrative, non-exclusive list of what constitutes cause to dismiss or convert a case to Chapter 7. *See In re Sydnor*, 431 B.R. 584, 590 (Bankr. D. Md. 2010). Additionally, a bankruptcy court has wide discretion to determine whether cause exists to dismiss or convert a case. *In re Products Int. Co.*, 395 B.R. 101, 109 (Bankr. D. Ariz. 2008); *In re Tornheim*, 181 B.R. 161, 163 (Bankr. S.D.N.Y. 1995) (factors in Section 1112(b) are not exhaustive, and bankruptcy court has wide discretion to determine if cause to convert exists).

7. Pursuant to Section 1112(b) of the Bankruptcy Code, the Court shall enter an order converting a Chapter 11 case to a liquidation proceeding under Chapter 7 or dismissing it for “cause.” *See* 11 U.S.C. § 1112(b)(1).

8. Cause includes, among other things, “substantial or continuing loss to or diminution of the estate and the absence of a reasonable likelihood of rehabilitation.” 11 U.S.C. § 1112(b)(4)(A).

9. Prior to the Petition Date, the Debtors owned and operated approximately 800 hair salon locations. [Dkt. No. 6]. However, the rapid and unforeseen spread of the COVID-19 pandemic during the second and third week of March 2020, forced the Debtors to close all their salon locations due to, among other things, directives issued by various state and local authorities that all non-essential businesses be closed. [Dkt. No. 14]. Prior to being forced to suspend their operations, the Debtors employed over 10,000 full and part time employees. [Dkt. No. 6].

10. On June 2, 2020, the Court entered an Order (A) Approving And Authorizing The Sale Of Substantially All Of Debtors' Assets Pursuant To The Amended And Restated Asset Purchase Agreement, Free And Clear Of All Liens, Claims, Encumbrances And Other Interests, (B) Approving The Assumption And Assignment Of Certain Executory Contracts And Unexpired Leases Related Thereto, And (C) Granting Related Relief [Dkt. No. 465] (the "Sale Order"). The Sale Order authorized the sale of substantially all of the Debtors' assets to HC Salon Holdings, Inc. ("HC Salon"). The sale to HC Salon closed effective June 4, 2020. [Dkt. No. 478].

11. The Debtors are no longer operating and no longer generating any income.

12. Currently, the Debtors collectively have approximately \$ 788,000.00 in their operating accounts from the liquidation of their assets, including the net proceeds of the sale of their assets. Furthermore, counsel to the Debtors is holding \$50,000 in escrow for payment of priority claims pursuant to the terms of the Sale Order. These proceeds are available for distribution to creditors.

13. The Debtors and the United States Trustee agree that it would be more cost effective to have these cases converted to cases under Chapter 7 of the Bankruptcy Code, so that a trustee can distribute the funds to creditors in accordance with the terms of the Bankruptcy Code.

14. Pursuant to Local Bankruptcy Rule 9013-2, the United States Trustee relies solely upon the present Motion, and no additional memorandum of fact or law will be filed.

15. Pursuant to Local Bankruptcy Rule 9013-6, the United States Trustee consents to final judgments orders in this matter by a bankruptcy judge.

WHEREFORE, in consideration of the foregoing, the United States Trustee respectfully requests that the Court enter an Order converting this case to Chapter 7 and granting such other and further relief as the Court deems just and proper.

Dated: May 23, 2022

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 23rd day of May 2022, a copy of the Motion to Convert Case to Chapter 7 was served electronically by the Court's CM/ECF system on the following:

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